

EIRIS Eurosif Thematic Research: Remuneration

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Overview

- Introduction
- What are the aims of remuneration?
- How can shareholders hold companies accountable? – principles & practices
- Linking remuneration to ESG performance – how are companies performing?
- Implications for companies
- Recommendations for shareholders

Remuneration – a high profile issue & recurring theme

- Existing governance standards e.g. Company Act (UK), Management Board Remuneration Disclosure Act (Germany)
- Major press stories worldwide following global financial crisis
- Shareholder 'say on pay' resolutions e.g. Switzerland
- Limited new regulation so far but a plethora of reviews and guidelines e.g. Best practice for director's pay (EU)

Eurosif working group

- CM-CIC Asset Management
- EIRIS
- Ethos Foundation
- Groupama Asset Management
- Henderson Global Investors
- MACIF Gestion
- PhiTrust Active Investors
- Robeco
- Société Générale Asset Management

Aims of remuneration - multiple

- “Attract, retain & motivate” directors of appropriate quality & calibre
- Incentivise & reward appropriate performance, risk management & behaviour
- Link performance & behaviour to long-term stable value creation for the company

OTHERWISE

- Risk of perverse incentives & misalignment of management & shareholder interests

Principles of a transparent & accountable remuneration framework

- Disclosure of **remuneration policy**, structures & performance criteria
- **Shareholder vote** ('say on pay') on remuneration policy – preferably binding
- Disclosure of **individual director remuneration** packages for approval
- Significant part of variable remuneration linked to achieving **long-term performance**

Accountability in practice – examples

Table 1: Types of “say on pay” voting

Types of voting	Country	Notes
Binding	Netherlands, Norway, Sweden	The legislation in these countries requires that shareholders are given a right to set remuneration policies and a binding vote on the approval of remuneration policies and packages.
Advisory	France, Germany, UK	<p>France: Article L. 225-100 of the French Commercial Code allows shareholders to file non-binding resolutions on any matters relating to the annual accounts (including remuneration).</p> <p>Germany: The Appropriateness of Management Board Remuneration Act (VorstAG) allows major shareholders to request a non-binding “say on pay” vote in accordance with the German Stock Corporation Act (AktG). A major shareholder is defined as one holding 5% of total shares or a nominal value of EUR 500,000.</p> <p>UK: The Company Act 2006 states that directors must ensure that a resolution on the remuneration policy is put to vote. Shareholders are also given the option of a non-binding vote against directors’ pay.</p>
Voluntary or in response to shareholder resolutions	Spain, Switzerland	Some Spanish and Swiss companies are starting to offer a vote to their shareholders.

Source: Blakes, Economist, Freshfield Bruckhaus Deringer

Linking remuneration to ESG performance – growing in importance

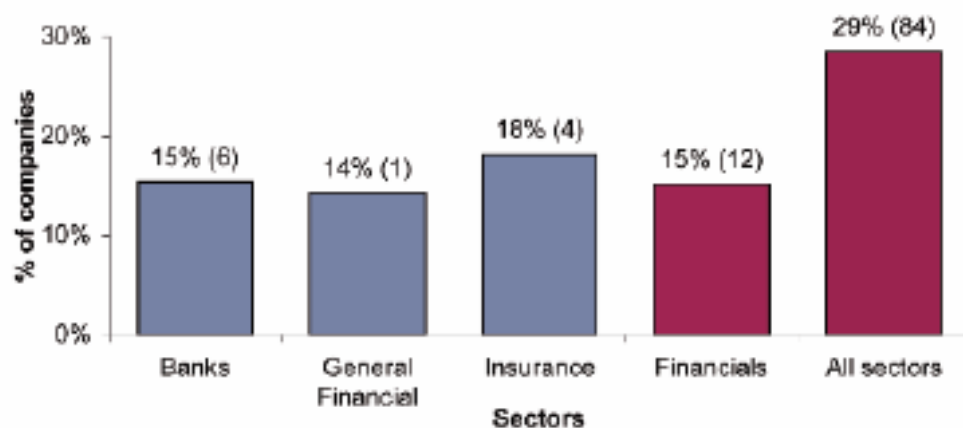
- ESG increasingly recognised as important for long-term stability, value creation & risk management
- Remuneration key accountability mechanism
- Some good examples e.g. Akzo Nobel

BUT

- General terms e.g. CR, ESG, SEE
- Lack of specific quantified, time-bounded & stretching targets

Linking remuneration to ESG performance – EuroFirst300 findings

Figure 1: Proportion (and number) of companies with ESG-linked remuneration



Source: EIRIS (Sept 2009)

- 29% have some commitment
- Rising to over 50% some sectors - O&G, mining etc
- Financials are poorest performers

BUT

- Over 50% do not specify ESG targets

Companies: challenges & opportunities

CHALLENGES

- Compliance with new regulations
- Maintaining good shareholder & stakeholder relations and wider reputation

OPPORTUNITIES

- Better remuneration policies
- Better corporate decision-making & positioning including more robust ESG risk management
- Enhanced shareholder relations

Recommendations for shareholders

- **Voting** against unacceptable remuneration packages and calling for and taking part in shareholder dialogue in determining remuneration policy
- **Requesting the detailed rationale** behind actual remuneration packages and asking for the **integration of ESG issues** into short-term and long-term variable pay
- Working with regulators to encourage a **“say on pay”** vote

Recommendations for regulators

Promote active dialogue between companies and shareholders and wider stakeholders by:

- Legislating for a binding (or if not possible, an advisory) **“say on pay” vote**
- Setting **appropriate guidelines** to promote good remuneration practices and disclosure
- **Engaging with companies** to promote detailed disclosure of remuneration policies and systems
- **Monitoring** the remuneration practices of institutions where there is a significant government shareholding

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